



Internal Revenue Service Criminal Investigation

Tax Fraud Alert

Public Corruption Tax Crimes

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Overview

IRS Keyword: Fraud

Fiscal Year 2004
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Criminal Investigation (CI) continues to participate in numerous investigations involving individuals who violate the public trust. The subjects of these investigations include both elected and appointed officials from all levels of government including, local, county, state, federal, and foreign officials.

Public corruption investigations encompass a wide variety of criminal offenses including bribery, extortion, embezzlement, illegal kickbacks, entitlement and subsidy fraud, bank fraud, tax fraud, and money laundering. Criminal Investigation concentrates its resources on the tax and money laundering aspects of these investigations in cooperation with other federal, state, and local law enforcement agencies. Criminal Investigations' expertise in conducting financial investigations has established our reputation as one of the leaders in the fight against corrupt public officials.

Statistical Data

How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

	FY 2004	FY 2003	FY 2002
Criminal Investigations Initiated	130	141	108
Prosecution Recommendations	90	91	77
Indictments/Informations	95	86	68
Sentenced	69	52	46
Incarceration Rate*	81.2%	82.7%	71.7%
Average Months to Serve	26	37	24

*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

Examples of Public Corruption Tax Crimes Investigations

The following examples of fraud investigations are excerpts from public record documents on file in the court records in the judicial district in which the cases were prosecuted.

Former City Housing Official Sentenced to 5 Years in Prison

On Monday, September 27, in Oakland, CA, former City of Hercules Senior Housing Specialist Darrick Jonathan Chavis was sentenced to five years in prison and ordered to repay \$390,494 that he and LaMark Kevin Lassiter stole from the city during 2001 and 2002. Chavis earlier pled guilty to mail fraud and filing a false tax return. Lassiter pled guilty to mail fraud and structuring monetary transactions and was sentenced earlier this month to serve two and one-half years in prison. Lassiter was also ordered to repay the same amount to the city. Chavis and Lassiter admitted that Chavis, as the city housing specialist overseeing the city fund known as the Rehabilitation and Beautification Program, created phony applications for funds that were intended to allow qualified city residents to repair their homes. The phony applications for funds used the names of actual Hercules residents without their permission. Chavis approved the funds and then mailed or hand-delivered checks to Lassiter, who posed as a licensed contractor. Lassiter paid another person to create invoices for repair work done on Hercules homes when, in fact, no work had been done. Chavis and Lassiter then shared the stolen funds.

Retired County Sheriff's Inspector and Former School Superintendent Convicted

On July 8, 2004, in Detroit, MI, Ronald Lupo, a retired Macomb County Sheriff's Inspector, and John Gardiner, former superintendent of East Detroit Public Schools, were convicted of a conspiracy under the Racketeer Influenced and Corrupt Organizations (RICO) statute and conspiracy to affect commerce under the color of official right. Lupo was also convicted of four counts of aiding and abetting in the interference with commerce by extortion. Evidence presented during trial, indicated Lupo and Gardiner accepted bribes from a construction owner who received various contracts with the East Detroit public schools.

Former Northridge Water Board General Manager Pleads Guilty to Tax Fraud Scheme.

On February 20, 2004, in Sacramento, CA, Dewight Frances Kramer pleaded guilty to conspiring to defraud the United States. Kramer admitted that while he was the General Manager for Northridge Water District (NWD) he conspired with co-defendant Jerry Ness to conceal from the IRS hundreds of thousands of dollars in taxable income earned by themselves and other NWD employees. Kramer admitted that he and Ness caused the compensation for unused sick leave and vacation pay for the NWD employees to be issued through accounts payable rather than payroll, resulting in no Form 1099's or other notifications being issued to the IRS. Kramer also issued himself bonuses, salary advances and a car allowance, all of which were also run through NWD's accounts payable, rather than payroll, resulting in no withholding of federal taxes. In total, Kramer admitted that during the period of January 1999 through December 2002, approximately \$516,332 in compensation issued to Kramer, Ness, and other NWD employees was run through the NWD accounts payable system in order to conceal it from the IRS.

Former Washington Teachers' Union President Sentenced for Mail Fraud and Conspiracy Charges.

On February 3, 2004, in Washington, D.C., Barbara Bullock was sentenced to 110 months in prison followed by three years supervised release, ordered to perform 3,000 hours of community service and pay restitution in the amount of \$4,662,924. Bullock plead guilty to mail fraud and conspiracy to embezzle from a labor union and file false union tax returns in the government's ongoing investigation into the theft of millions of dollars from the Washington Teachers' Union (WTU) and cover-up of the wrong doings. Bullock admitted that she, along with the WTU's former treasurer and her former executive assistant stole over \$2.5 million from the WTU starting in 1995, and continuing through September 2002.

Former Illinois Governor George Ryan Indicted...

On December 17, 2003, in Chicago, IL, the former Governor (1999-2003) and former Secretary of State (1991-1999) of Illinois, was indicted by a federal grand jury on racketeering conspiracy, nine counts of mail fraud, three counts of making false statements, one count of income tax evasion and four counts of filing false federal income tax returns. Ryan and certain of his associates allegedly engaged in a pattern

of corruption that included performing official government acts, awarding lucrative government contracts and leases, and using the resources of the State of Illinois for the personal and financial benefit of Ryan, members of his family, his campaign organization and certain associates.

Ryan was added as a defendant in the second superceding indictment against Chicago businessman Lawrence E. Warner, who was initially indicted last year for allegedly using his influence and control over the Secretary of State Office for the personal and financial benefit of himself and others. The 22-Count indictment is a part of Operation Safe Road, the ongoing five-year-old investigation of corruption in the Illinois Secretary of State's Office and Governor's Office between 1990 and 2002. The indictment also seeks forfeiture against Ryan and Warner of more than \$3.1 million.

Former President of the United Teachers Union sentenced on Tax Evasion and Mail Fraud charges

On November 24, 2003, in Miami, FL, Pasquale "Pat" Tornillo, Jr., the former President of the United Teachers of Dade (UTD) Union, was sentenced to 27 months of imprisonment, to be followed by two years of supervised release. Tornillo previously entered a guilty plea to a two count Information, charging him with defrauding UTD and with making false statements on his income tax returns. Tornillo was also ordered to pay UTD \$650,000 in restitution within 30 days, as well as an additional \$150,000 in restitution within 6 months to cover UTD's attorney's fees and accounting expenses. Tornillo was also ordered to pay the Internal Revenue Service for his unpaid taxes, interest and penalties for the tax years 1997 through 2002, an amount which is expected to be approximately \$350,000. Tornillo engaged in a scheme to defraud the UTD and to unjustly enrich himself by using money belonging to UTD to pay for his personal credit card expenses and other personal expenses. Tornillo used personal credit cards and UTD corporate credit cards to make a variety of personal charges as well as union-related charges.

Paul Silvester Sentenced to 51 Month Imprisonment

On November 20, 2003, in New Haven, CT, Paul J. Silvester was sentenced to 51 months in prison, followed by three years supervised release. Silvester, the former Connecticut State Treasurer, pleaded guilty to one count of violating the Racketeer Influenced and Corrupt Organization Statute (RICO) and count of money laundering. Silvester admitted to engaging in acts of bribery and schemes to deprive the citizens of Connecticut of his honest services. The object of the racketeering activity was as Connecticut State Treasurer, to corruptly solicit, for himself and others, bribes and rewards which included cash, lucrative consulting contracts and employment, in return for investing Pension Funds with various private equity funds. Silvester also admitted that he formed an unlawful arrangement with Christopher Stack whereby Stack was to kick back to Silvester a portion of the monies that he received as a consultant for certain funds. Silvester used a portion of the money to satisfy personal obligations and used a portion to contribute unlawfully to his failed 1998 election campaign for State Treasurer.

Silvester also admitted to conspiring with Stack, and his brother-in-law, Peter Hirschl, to launder certain funds. Silvester conspired with Stack and Hirschl to disguise the proceeds of the solicitation and acceptance of corrupt payments as legal fees paid by Stack and Hirschl. It was understood that the arrangement was a means to make payments to Silvester, not to perform legitimate legal services.

Former Texas Attorney General Dan Morales Sentenced to Federal Prison

On October 31, 2003, in Austin, TX, Dan Morales, former Texas Attorney General, was sentenced to four years in prison, followed by three years supervised release for filing a fraudulent 1998 income tax return and attempting to secure unearned attorney fees related to the financial settlement in the case of *The State of Texas v. The American Tobacco Company, et. al.* Additionally, Morales was ordered to pay \$36,000 to compensate the government for the costs of his supervised release, \$155,000 for the costs associated with the appointment of the United States Public Defender's office to represent him and \$146,112 in restitution to the U.S. Treasury as reimbursement for the tax loss associated with the underreporting of income. The tobacco case scheme and political contributions scheme occurred simultaneously from 1996 through 1999 as Morales used the status candidacy and public office to enrich

and attempting to enrich himself and his friend and campaign manager Marc Murr. In support of the scheme Morales and Murr produced bogus state contracts intended to be used as evidence of Murr's involvement in the litigation, in order to justify Murr's claim for fees which could have amounted to \$520 million. Morales converted over \$400,000 from his campaign fund account for his own personal benefit and failed to report this illegitimate income in his 1998 income tax return.

Director of Public Safety and Mob Boss Sentenced

On January 2, 2003, in Chicago, IL, Emil Schullo, the former Director of Public Safety of Cicero, Illinois, and Michael B. Spano, Sr. of Darien, Illinois, were sentenced and ordered to pay restitution as a result of the theft of \$75,831.24 from the Town of Cicero and a Klein conspiracy to conceal from the IRS the proceeds of their theft. In addition, Spano, Sr. was sentenced for his role in money laundering and a money laundering conspiracy with two other individuals including a Berwyn, Illinois, police officer. Spano, Sr. received a total sentence of 72 months for the money laundering and tax charges and Schullo received a term of 37 months for the theft/bribery and tax offenses. In March 2002, a jury reached a guilty verdict after learning that Spano, Sr. and others used a "front" to obtain a contract from Schullo to conduct police residency investigations for the Town of Cicero. The contract was inflated to generate cash for kickback payments to Schullo and for Spano, Sr. to share in the profits. In sentencing Schullo, Judge Ruben Castillo commented that he wished he could sentence Schullo to more jail time and that the crime was no different than taking every citizen of Cicero, locking them up and preventing them from leaving unless they each paid the defendants \$20.00.

Six Sentenced In Fraud Scheme Against Town

In Chicago, throughout the week of January 6, 2003, six individuals were sentenced to prison for their participation in an elaborate fraud scheme to defraud the town of Cicero of \$12 million dollars. The former Town President, Betty Loren-Maltese and five others, including Cicero's reputed mob boss, Michael Spano Sr., his son, Michael Spano Jr., the towns former Director of Public Safety, Emil Schullo, the former town attorney, Charles Schneider, and insurance company employee, Bonnie LaGiglio were convicted in August 2002 of looting more than \$12 million from the town by handing control of the Town of Cicero's insurance claims to a mob-controlled firm. Instead of paying off health care claims, they purchased a golf course, built a Wisconsin summer home, bought Cadillacs, an Indiana horse farm and doled out loans to family and friends.

The convictions and sentencings are as follows: Bonnie LaGiglio 41 months in prison -convicted of Title 18 371 (Klein Conspiracy). Michael Spano, Sr., 151 months in prison -convicted of Title 18 371 (Klein Conspiracy), Title 26 7206(1) (False Return), Title 18 1956 (Money Laundering), Title 18 1962 (Rico), and Title 18 1346 and Title 18 1343 (Wire and Mail fraud). Michael Spano Jr. 78 months in prison - convicted of Title 18 371 (Klein Conspiracy), Title 18 1956 (Money Laundering), Title 18 1962 (Rico), Title 18 1344 (Bank fraud) Title 18 1346 and Title 18 1343 (Wire and Mail fraud). Chuck Schneider, former town of Cicero attorney, 87 months in prison - convicted of Title 18 371 (Klein Conspiracy), Title 18 1962 (Rico), Title 18 1956 (Money Laundering), Title 18 1346 and Title 18 1343 (Wire and Mail fraud). Emil Shullo, former director of Public Safety for the town of Cicero - 108 months in prison - convicted of Title 18 1962 (Rico), Title 18 1956 (Money Laundering), Title 18 1346 and Title 18 1343 (Wire and Mail fraud). Betty Loren Maltese, former town president of the town of Cicero, 97 months in prison - convicted of Title 18 1962 (Rico), Title 18 1956 (Money Laundering), Title 18 1343 and Title 18 1346 (Wire and Mail fraud). Currently, four individuals are still awaiting sentencing on this case.

Former Bridgeport Mayor Sentenced To Nine Years In Prison

On July 1, 2003, in New Haven, CT, Joseph P. Ganim was sentenced to nine years in prison, three years of supervised release, and a \$150,000 fine for his conviction on corruption charges. The former five-term Mayor of the City of Bridgeport was convicted in March of 16 counts of racketeering, racketeering conspiracy, extortion, mail fraud, bribery, conspiracy, and filing false income tax returns. Ganim was convicted of corruptly soliciting and receiving more than \$500,000 in benefits, including cash, meals, entertainment, merchandise, home improvements and professional services from Paul J. Pinto, the vice president of the Kasper Group, Leonard J. Grimaldi, the president of Harbor Communications and Alfred

Lenoci Sr., and Alfred Lenoci Jr., the president and vice president, respectively, of United Properties, in exchange for steering lucrative city contracts to the Kasper Group, Harbor Communications and United Properties. Ganim was convicted of extortion in connection with his selection in 1996 of the Professional Services Group ("PSG") to operate the city's wastewater treatment facilities. Ganim conditioned his selection of PSG, a client of Grimaldi's, upon the company's payment of \$350,000 to Grimaldi and Pinto. Ganim was also convicted of bribery in connection with his awarding in 1999 of an 18-year extension of PSG's contract with the city. In return, Ganim received a kickback from Grimaldi in the amount of approximately \$150,000 - one third of the consulting fee that Grimaldi was paid by PSG. In addition, Ganim was convicted of conspiring with Pinto and the Lenocis to accept \$1 for every square foot of commercial space built by United Properties in Bridgeport in return for Ganim's support for and approval of those projects. Ganim was also convicted of fraudulently concealing his use of hundreds of thousands of dollars of municipal funds to purchase a \$1 million life insurance policy for himself. Pinto, Grimaldi and eight other defendants previously pleaded guilty to racketeering, bribery and tax fraud and will be sentenced later this month.

For more summaries, visit www.irs.gov and enter Keyword: Fraud.

Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.